

## The new decade in Europe

As a new decade dawns, we look at the Eurozone's new reality of low growth, low inflation and even lower rates. Technological progress, the rule of law and government efficiency are key in determining whether a low growth environment is a blessing or a curse. But what does a persistent low growth environment mean politically? We take a look in our new series

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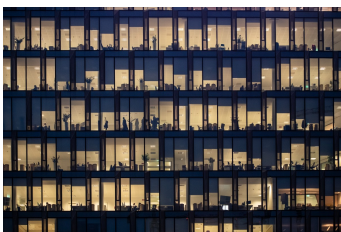
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Article | 3 March 2020

# The new decade: Weak eurozone growth with a simmering existential threat

Even before the coronavirus outbreak, dark clouds had been gathering over the eurozone economy, with Italy in the eye of the storm. Over the next 10 years, the region's potential growth rate will likely slow to a crawl while Italy faces a stagnation far worse than anything Japan has seen



Source: Shutterstock

## Growth below 1%

As a new decade dawns, expectations for growth in the eurozone are meagre at best. The outbreak of the coronavirus has already derailed a fragile economic recovery this year and is threatening to push some countries into recession.

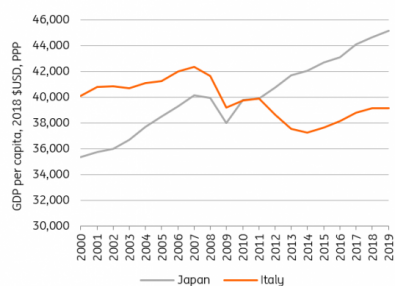
But the region's economic challenges aren't confined to the short-term. In the next 10 years, demographic and structural headwinds, and a limited appetite for reform, could push the bloc's potential growth rate to less than 1%, down from the annual average pace of 1.4% of the previous decade.

Slowing growth in mature economies with high GDP per capita levels is a relatively new

phenomenon in modern economic history, which is why the eurozone is often compared to Japan—a country which has long struggled with low growth and low inflation and is also confronted with an ageing population and shrinking workforce. We have already written about the eurozone's possible 'Japanification' [here](#) and [here](#), arguing that this is not the worst possible outcome given Japan's high living standards and GDP per capita levels.

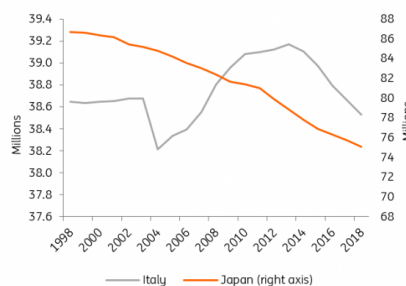
Much more troubling is the stagnation scenario playing out in Italy. Structural growth here has slowed down over the last two decades, with GDP per capita growth stagnating since the financial crisis. Despite the common belief that Japan has been the worst performing G7 economy, an average GDP growth rate of 1.4% over the last two decades is much better than Italy's 0.5% during the same period.

Fig 1 GDP per capita developments show that Italisation is a far worse scenario



Source: The Conference Board

Fig 2 The working age population has been declining for both countries over recent years



Source: OECD

## Comparing Italy and Japan

There are many differences between the Japanese and the Italian economies but what they do have in common is a shrinking working age population ([click here for more on an ageing population in the eurozone in the 2020s](#)). In Italy, the working age population grew until 2013 and is now just below the level of 2000. In Japan, the shrinking working age population was even more pronounced, as it was 13.1% lower in 2018 than in 2000.

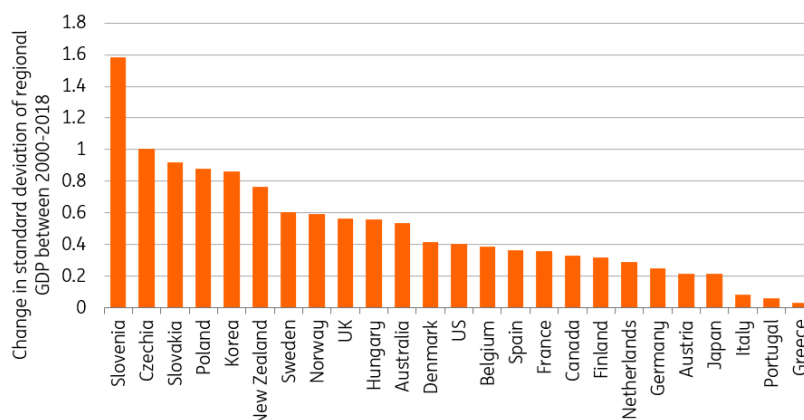
As a result of low growth in both economies, total debt has increased significantly. Taking all sectors of the economy together, total debt has increased by 61.1% of GDP in Italy and 75.8% of GDP in Japan since 2000. While in Italy, household and corporate debt increased significantly in the first years after the start of European Monetary Union, probably due to the convergence play, Japan saw a sharp increase in government debt. After the financial crisis, both countries experienced a gradual debt reduction in the household and corporate sector, while government debt surged.

One unanswered question is what a persistent, low growth environment could mean politically. In this regard, Japan and Italy are almost at the extreme ends of the range. In Japan, the stability of the LDP party since the war is an indicator of a population that is at ease with itself. The LDP party has only been in opposition twice since the 1958 elections. Italy, on the other hand, has seen some 70 different governments since 1945.

Political divides within countries are often explained away by regional inequality, with the rise of populist parties frequently linked to voters in left-behind areas. Interestingly, for countries with aggregate weak growth rates over the past 20 years, the regional differences have not grown. The differences between regions seem to grow only when countries experience strong growth rather

than when growth slows to a marginal pace, as can be seen below.

### Fig 3 - Regional differences do not increase in times of stagnation



Source: OECD, ING Research

Another factor that has distinguished Italy from Japan until now has been its policy on migration. Italy has retained policies of relatively open borders, while Japan has kept its borders relatively closed (although Prime Minister Shinzo Abe has also eased immigration standards). While this has worsened the blow of the population decline, immigration is less of a political divider in Japan than it is in Italy and other large advanced economies.

A further key difference is that Italy is a member of the European Monetary Union, which makes it difficult for the country to monetise debt as Japan has done. This is an important lesson for the eurozone as a whole. The Stability and Growth Pact binds eurozone member states to a fiscal conservatism that rules out increasing government debt to keep growth levels higher.

### Lessons for the eurozone

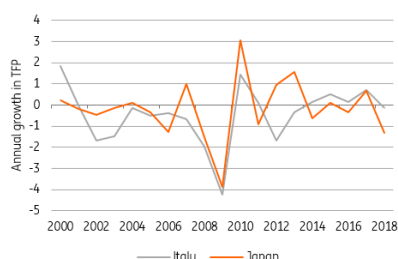
Italy's experience with low growth in the last two decades is clearly worse than Japan's experience. Obviously, there are many different reasons for this but a couple of observations catch the eye: Italy has had much higher growth in R&D spending than Japan – by a whopping 86% compared to 11% over the course of 2000 to 2016 – but annual growth in Total Factor Productivity (TFP) was much weaker in Italy than in Japan – a rather counterintuitive outcome.

This is partly a result of the lower base from which R&D started to grow, but it also relates to Italy's productivity problem, which is considered an important reason behind Italy's poor economic performance. Explanations for low productivity growth in Italy include resource misallocation, the large amount of very small businesses that generally struggle with growth, product market rigidities, a lack of investment in ICT, education and most recently a lacking of managerial skills. That is quite a list of issues that may be holding back the Italian economy from growing faster even in times of a declining working age population.

Another factor holding back productivity growth is deteriorating government effectiveness and the rule of law. These have diverged between Japan and Italy and could be an important driver of the different economic performances despite similar policy efforts. Gros (2011) argues that the

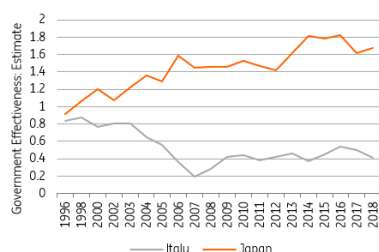
deterioration of the Italian institutional framework as documented by the World Bank – see figure 4 – is one of the more important factors to consider when looking at Italy’s economic underperformance since the early 2000s. In Japan, this has not been the case and the World Bank has even reported improvements in its institutional structure, suggesting that Italy’s declining institutional framework has indeed had a substantial impact on its falling GDP per capita.

**Fig 4** TFP growth developments were stronger in Japan in the aftermath of the crisis



Source: The Conference Board

**Fig 5** Government effectiveness has declined markedly in Italy over the 2000s



Source: World Bank

The differences between Italy’s and Japan’s experiences with low growth are large and provide important lessons for eurozone policy makers. Technological progress, the rule of law and government efficiency are key in determining whether a low growth environment is a blessing or a curse.

Without the ability to monetise debt, improvements in the potential growth trend should mostly come from structural reforms. But when both of these adjustment mechanisms are absent, income per capita is at risk of contracting for a longer period of time, as the Italian case illustrates. As the eurozone reform agenda is not very ambitious right now, growth divergence is set to continue, which only makes the European Central Bank’s job harder and continues to be a simmering existential threat to the monetary union.

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## Carsten Brzeski on what Europe needs to learn from Japan

Low growth, low inflation, low rates and demographic change; it's something both Italy and Japan are facing. So why is Japan's productivity growth bigger than its European counterpart, which has higher research and development spending? As part of our 'Europe, the new decade' series, Carsten Brzeski has some answers



### What Europe needs to learn from Japan

Is Europe heading down the same road that Japan's been on for years? That's a key question for policymakers. ING's Carsten Brzeski says Italy, in particular, suggests we could be, although there are crucial differences.

[Watch video](#)

Read more on 'The new decade: Labour shortages, lower growth, lower rates' [here](#).

And this is all part of a wider series looking at the eurozone in the coming decade. Find it all [here](#).

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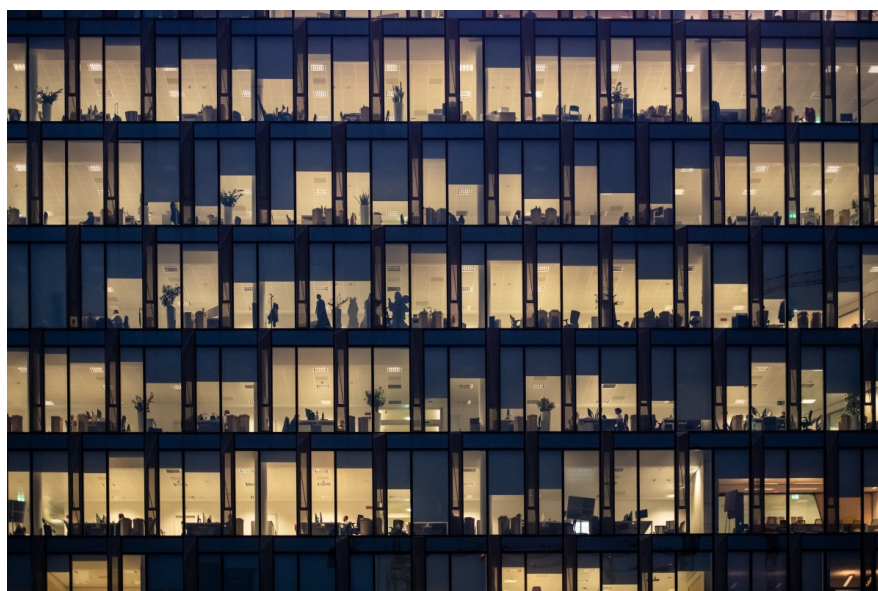


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Article | 3 March 2020

## The new decade: Labour shortages, lower growth, lower rates

A decline in the eurozone's working age population over the coming decade could mean lower economic growth, lower interest rates and higher house prices. It's hard to overestimate the impact



Source: Shutterstock

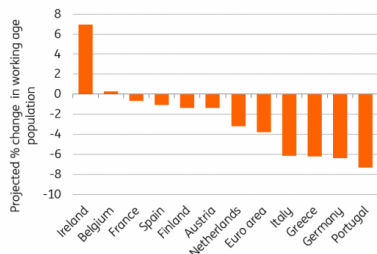
This time it really is different. By the end of the decade, the entire baby boom generation will have turned 65 and the working age population will be firmly in decline. While growth in the age group 15-64 – which is how the working age population is currently still defined – stagnated in the 2010s, it will shrink by almost 4% over the coming decade for the eurozone as a whole and by over 6% in countries like Germany and Italy. This means that demographics will become key in policy making in the years ahead. Think of labour shortages, lower potential growth, higher health care costs and pressure on pension systems. In fact, the most recent Finnish elections were centred around ageing and the costs that this will bring. This may be a taste of what's to come as Europe feels the impact of the baby boom retirement throughout the decade.

### The working age population starts to shrink

The working age population in the eurozone peaked about a decade ago and went into decline during the European debt crisis, when unemployment surged and many migrant workers returned to their home countries. Pure demographics and ageing populations have added

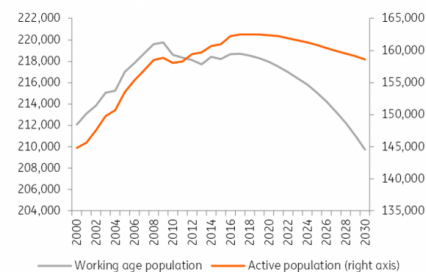
to the gradual shrinking of the working age population ever since. According to Eurostat projections, the decline will intensify in the years ahead. As figure 1 shows, there is a large difference between countries, but none of the large eurozone countries will escape this fate.

**Fig 1 The working age population is going to shrink in almost all major countries, but differences are large**



Source: Eurostat, ING Research

**Fig 2 The amount of active people will start to shrink quickly too**

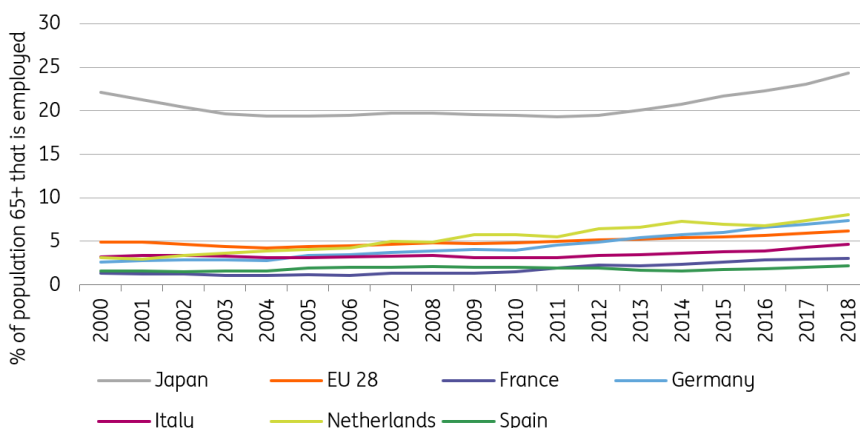


Source: Eurostat, ING Research

There is a difference between a shrinking working age population and a shrinking labour force though as not everyone at working age actually participates in the labour market. For the past two decades, governments have been trying to mitigate the ageing population problems by increasing the retirement age and disincentivising early retirement. The latter has caused a significant improvement in the amount of active people between 50 and 65, which had been at a very low level compared to the United States for example. The labour force has therefore continued to grow, but projections by the ILO of participation by age cohort along with population projections by Eurostat show that there is little time left before the labour force will start to decline.

A shrinking working age population comes with significant issues for the labour market. With a smaller pool of workers, labour shortages are set to become a more chronic issue in the eurozone job market. This does not mean that it will always be hard to find workers, but it will be a constraint in a larger part of the business cycle. That will, in turn, curb the growth potential of the eurozone economy, meaning that demographic elements are in part to blame for structurally lower growth expectations for the 2020s compared to the previous decades.

**Fig 3 - Above 65, the increase in workers has been marginal compared to Japan**



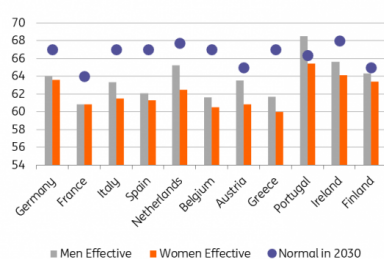
Source: OECD, ING Research

## Can it be avoided?

There are still improvements to be made in the effective retirement age over the coming decade. The effective retirement age is still catching up to the actual retirement age in many countries – all except for Portugal in fact – and over the course of this decade, the retirement age will be raised further, potentially increasing the labour force. By the end of the decade, a normal retirement age of 67 will be more or less standard practice for the larger eurozone countries. That should cushion some of the negative effects, although the question is whether the effective retirement age will increase enough to keep the workforce growing altogether.

Immigration could also be an important factor in mitigating the decline in the working age population. In fact, migration swings can often be large enough to make demographic projections significantly off the mark. While this is indeed difficult to predict, the current political environment in the eurozone would seem to preclude large immigration flows in the coming years. In fact, as figure 4 shows, they would have to be very large for the working age population to remain stable.

Fig 4 Will the effective retirement age increase to the retirement ages set for 2030?



Source: OECD, ING Research

Fig 5 To maintain labour force growth at 2000-16 average, immigrants are most needed in Germany and Italy



Source: Eurostat, ING Research

## The impact on the economy will be significant

It is hard to overestimate the impact of the decline in the working age population. 'Japanification' is a common theme in the markets these days and this comparison to Japan is heavily reliant on demographics. According to a recent Banque de France working paper (2019), the impact of ageing on the economy will be seen in:

- Lower economic growth
- Lower interest rates
- Higher house prices
- Higher aggregate savings ratio
- Higher net foreign assets

Perhaps most relevant, besides the impact on economic growth, is the effect on interest rates. This is significant as BdF (2019) has estimated that global demographic developments between 1980 and 2015 pushed real interest rates down by 157 basis points, and the negative impact is set to continue over the coming decade. This decline is due to a higher aggregate savings rate among older households (on average) and people saving more for retirement, given rising life expectancies. This suggests we are likely to see a continuation of subdued interest rates, as the ageing population starts to bite.

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Article | 4 March 2020

## The new decade: Why productivity growth won't save us

Eurozone trend growth has declined strongly over the last decade and this is unlikely to change in the 2020s. The main culprit is ageing, which is a double whammy to growth. It not only reduces the growth of the labour force, but is also one of the drivers of the decline in productivity growth, a negative effect that is often overlooked



Source: Shutterstock

Over the last decade, western economies, particularly within the eurozone, have been characterised by unusually slow growth, a phenomenon known as secular stagnation.

Europe is now confronted with a slowdown in labour force growth at a time when productivity growth has been dwindling, leading to a decline in potential economic growth. A recent study showed that over the period 2006 to 2014, productivity growth fell short of compensating for the negative impact of ageing on per capita GDP growth in nearly half of the OECD regions.

Demographic trends are relatively easy to forecast. We know that in the eurozone the growth of the working age population has been decelerating over the last decade and will fall by 3.8% in the next 10 years. It is therefore key for stronger productivity growth to compensate for the decline in

the labour force. Large changes in productivity growth trends are unfortunately much harder to predict than demographics as they rely on factors like technological change and adoption of new technologies throughout the economy. Productivity growth has been falling in recent decades and the reasons for this have been the focus of much research. Some point to the disappointing pickup of digitalisation in the economy while others look to the impact of low interest rates and banking. But the root cause of the weak productivity trend over past decades can also be found in demographics.

## The impact of the ageing population on productivity

Intuitively, you would think that productivity increases with experience but starts to level off at a certain age, when people become less flexible in adopting innovation. However, these generalisations might hide very different trends across sectors. It is obvious that in physically demanding professions like construction, productivity might start to fall at a relatively early age while in other professions, experience could contribute more strongly to growing productivity. Therefore it is not easy to extrapolate micro economic observations to the macro level. That said, empirical research shows that, on average, productivity tends to increase until workers are in their forties and starts to decrease later in their working career. This brings about the idea that the changing age composition of the workforce might indeed have an impact on macro-economic productivity growth. A population where the majority of workers are past their prime working age could act as a drag on overall productivity.

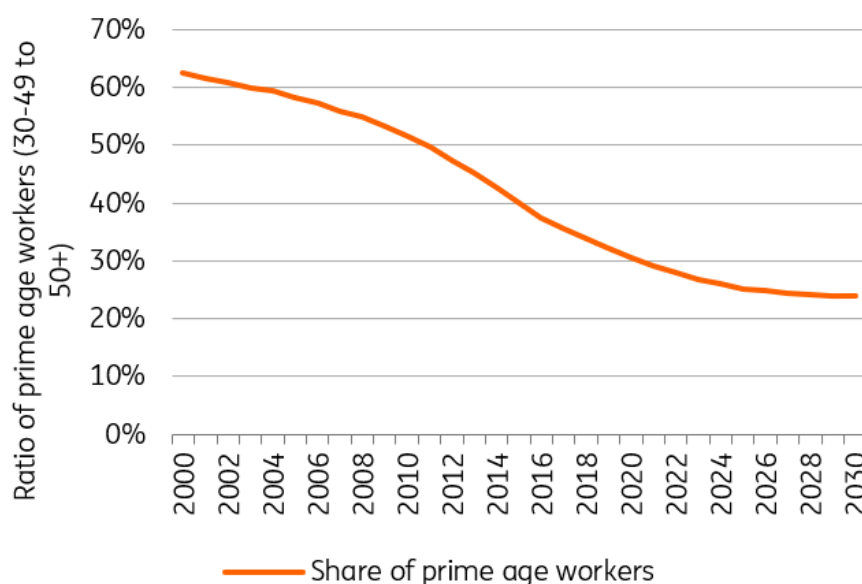
An ageing population acts as a double whammy for potential growth in the eurozone. Various studies have found links between the relative importance of different age cohorts and productivity, all pointing to a positive relationship between a large group of “prime age workers” and productivity growth. A recent study by the [IMF](#) finds that a larger share of prime workers in total employment has a positive effect on productivity growth. As the share of prime age workers has been declining (for which we use a ratio of 30-49 to 50+), this has, in part, explained the declining productivity growth.

## What can be expected in the coming decade?

We have used the International Labour Organization's participation rate projections by cohort and Eurostat's population projections to estimate the future share of prime age workers in the active population (note that we do not take employment estimates but estimates of active population, which also include the unemployed as it is beyond the scope of this piece to make cyclical assumptions for the coming decade). With that, we have a proxy for prime age employment (which we define as the ratio between people employed aged 30-49 and 50+) in the 2020s. While the share of prime age workers will not decline as quickly as it has over the course of the past decade, it will still decline. This means that there will be continued downward pressure on productivity growth coming from the labour market's composition. To be sure, productivity growth is unlikely to decelerate at the same pace as it has over the last few decades, but the ageing workforce certainly won't help in the new decade.

## The share of prime age workers is set to decline

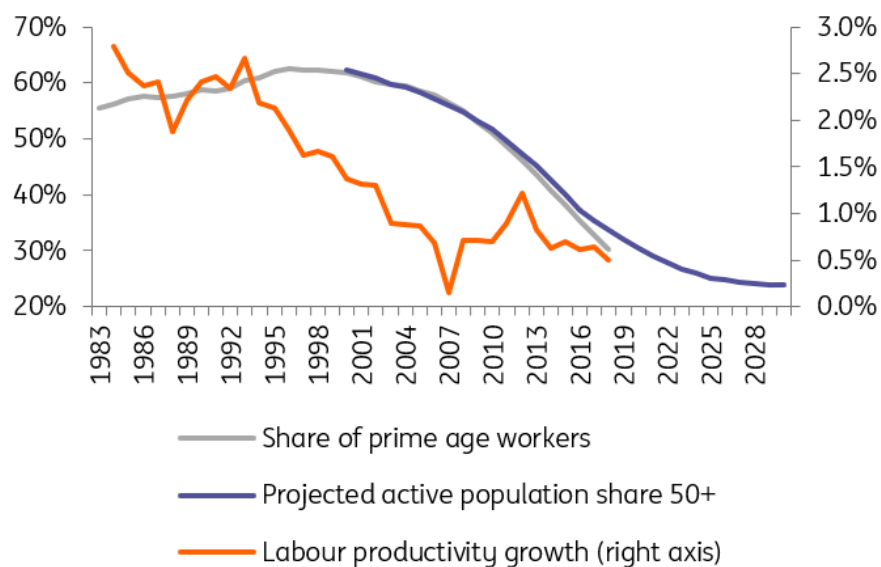
Source: Eurostat, ILOstat, ING Research



Between countries, differences are significant. The ones with a high share of workers above 50 include Germany (although the share starts to decline from 2022 onwards) as well as Italy, Spain and Portugal. In the Netherlands, France and Belgium, the impact on productivity growth from the labour market will be better than average. This means that with the exception of Germany, the divergence between the core and periphery countries could remain a theme in the 2020s, as potential productivity growth for the core economies seems better than that of the periphery. It's not just demographic factors that separate the north from the south. The two regions also differ in terms of their digital performance, investment, company size and institutional framework, with the core economies more likely to outperform their periphery neighbours in terms of productivity growth.

## The lower share of prime age workers puts pressure on productivity growth in the decade ahead

Source: OECD, BCL database, Eurostat, ILOstat, ING Research



### Mitigating factors?

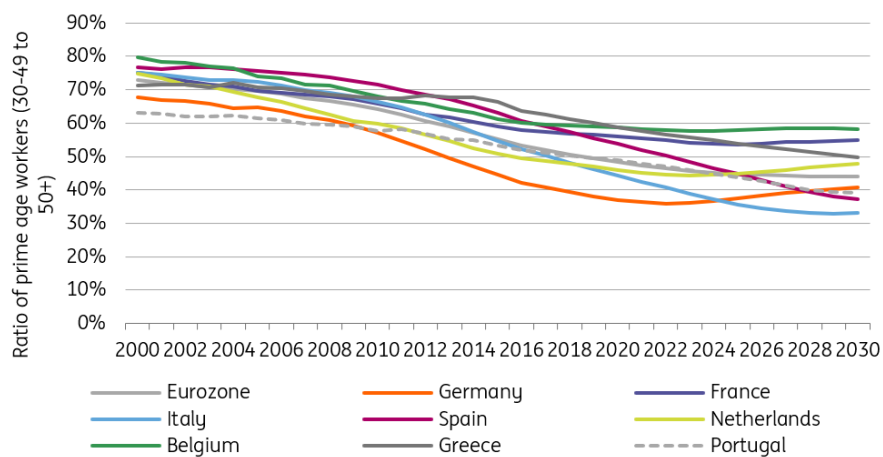
To be sure, productivity differences between sectors or firms can also be quite important, superseding the differences caused by a changing composition of the workforce. According to the Eurosystem's Competitiveness Network, the distribution between the most and least productive firms within eurozone countries is very large, especially in non-tradable goods, which are often sheltered by regulation. To compensate for the ageing effect, a very flexible labour and capital market is needed, constantly shifting resources to the most productive sectors or firms. Europe is definitely not there yet and more structural reform is likely needed. Moreover, in an ageing society the pattern of consumption tends to shift towards services, a sector where productivity growth is lower on average. This phenomenon might drag the average productivity growth of the whole economy down further.

With demographic trends putting pressure on the economy, one would hope that productivity growth comes to the rescue, and while a surprise technological breakthrough is always possible and structural reforms could temper the current downtrend, the ageing composition of the labour force is likely to dampen productivity growth in the new decade. That adds to expectations for low interest rates for longer, as the eurozone economy maintains a slow trend growth pace.



## Large differences emerge by country, with most peripheral countries experiencing the lowest share of prime age workers

Source: Eurostat, ILOstat, ING Research



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Article | 4 March 2020

## The new decade: Europe's hottest job markets

While economic growth in the eurozone will likely slow over the coming decade, some regional job markets are set to thrive

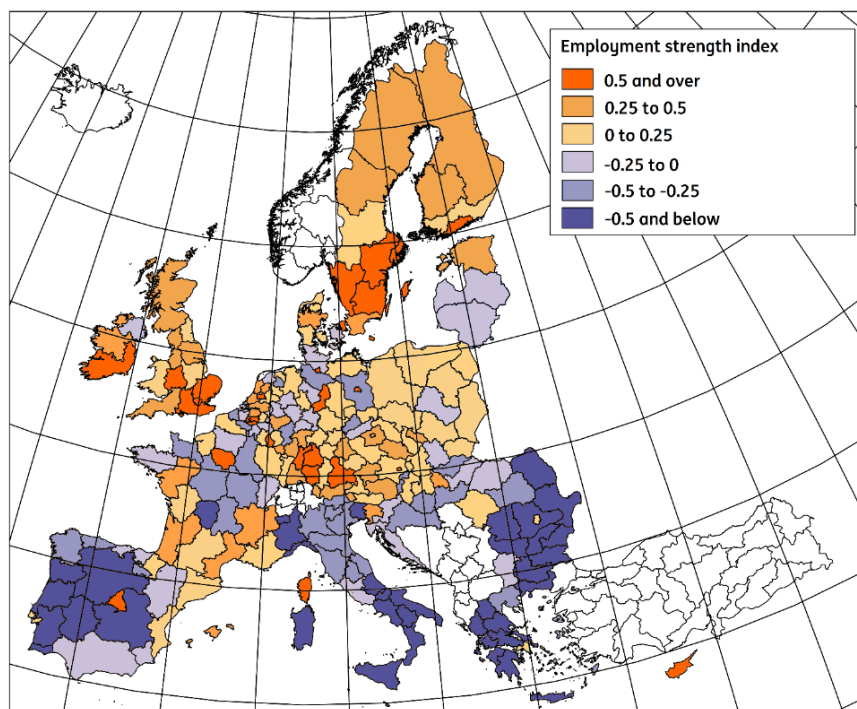


Source: Shutterstock

### Employment prospects differ significantly between EU regions

Brussels, Copenhagen, Helsinki, London and Vienna have something in common. Aside from being large, northern European metropolitan areas, they're also pockets of opportunity in an environment of slowing economic growth. With good digital infrastructure, moderately high spending on research and development and highly educated workforces, employment prospects in these cities are among the best in Europe over the coming decade, while strong high-tech industrial areas such as Stuttgart, Braunschweig, West Sweden and Brabant Wallon are also set to outperform.

## Fig 1 Employment strength index for the 2020s shows metropolitan areas steaming ahead



Source: ING Research

### Our employment strength index explained

[In our previous article on this subject](#), we highlighted that the most important determinants of long-run strength in employment are the level of education of a region, the median age of the population, the vulnerability to globalisation, spending on R&D and access to digital infrastructure. Using these factors, we compiled an index to determine which regions are set for employment strength in the next 10 years. We've updated this index with the very latest data to get as close to the starting situation for the 2020s as possible. And while some small differences occur, a similar picture emerges.

### Age plays a role

The age of a population has an important impact on economic growth and on job creation- one of the main themes of our 'new decade' series. This also plays an important role for individual regions as there are massive differences within countries. Rural areas tend to have higher median ages on average, which has a negative impact on their economic potential. Cities tend to be the youngest, which we can see in the figures for 2019.

At 35.4, London has the lowest median age, closely followed by other UK regions including Birmingham and Manchester, while Cornwall has an average age of over 47. In Germany, Hamburg has a median age of just over 40, while Chemnitz and Sachsen-Anhalt are the oldest in the EU at 51.7 and 51, respectively.

## The impact of de-globalisation

In terms of vulnerability to globalisation, we have found a significant correlation over the past decade between employment growth and the impact of trade. While there are large differences between regions, those that have experienced a lot of outsourcing or competition from abroad have also suffered from local job losses.

That said, doubts about globalisation have been growing recently given the political climate on trade and supply chain vulnerability exposed by Brexit and the coronavirus, suggesting that this trend could be less relevant in the 2020s than it was in the 2010s.

If we exclude the globalisation indicator, we are left with roughly similar prospects for regional job markets going forward. Some notable exceptions are Brussels, Luxembourg, Cyprus and Madrid, which see their employment expectations weaken, as they were among the least at risk from globalisation. Swedish regions, on average, perform better without globalisation, bringing them even closer to the top of the list. But employment prospects do not change markedly for most regions when we omit this factor.

If more traditional industrial production were to return to the EU, however, the story could be quite different. Regions that perform less well on the ranking are ones that seem more attractive in terms of cost efficiency, as they provide a relatively good cost-benefit ratio. Many of them also still experience relatively high structural unemployment and therefore still have a decent pool of workers available, which likely keeps wage growth below average. These regions could thrive if more production were to come back to the EU, but for the moment this remains a remote possibility.

## Stronger regions may not outperform as much as before

In the new decade, rural areas that have fallen behind in terms of digital infrastructure and investment and those which also have older populations are set for weaker than average growth, while the more innovative regions with better digital infrastructure and younger, more educated populations are set to thrive. The question is, by how much?

Interestingly, as we have found in [our note on slow growth environments](#), countries that have seen the weakest aggregate growth rates have also experienced the mildest divergence between regions. This suggests that while some areas will clearly outperform, even these 'star' regions may find it hard to maintain growth rates experienced in previous decades.

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## The new decade: the way we pay

The way we manage our daily money is changing rapidly, both visibly and behind the scenes. Effects will go beyond the disappearance of plastic cards



### Payments: striving for integration, achieving more fragmentation?

Payments are seen as the plumbing of the economy. If that seems dull, rest assured, it isn't anymore. It combines cutting edge tech developments, geopolitical arm-wrestling, stiff competition and central bank strategic manoeuvring.

Take Facebook's Libra, a new cryptocurrency which threatens to disrupt the global financial system. After a strong backlash from global politicians and central bankers, it is unclear whether Libra will launch as planned in 2020. But with tech giants pushing deeper into finance, and bigtech already taking over payments in China, the industry looks set to be transformed in ways that have yet to be fully recognised.

The geopolitical importance of payment infrastructure is clear. The central role of the dollar in international finance means the US can wield power over foreign financials – power the US has been increasingly willing to use. It prompted, for example, the European Commission and European Central Bank to advocate more strongly for the development of a European retail payment infrastructure (as opposed to the current system reliant on the US firms Visa, Mastercard and Paypal, with expanding US and Chinese bigtech payment front-ends), and to develop [plans to promote the international role of the euro](#).

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*Given their potentially far-reaching consequences, digital currencies are rapidly turning into Boardroom material as well.*

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Libra, and the strategic importance of money and payments, has prompted some major central banks to perform a U-turn on central bank digital currencies (CBDC). Before 2019, CBDC was mostly a debate for monetary seminars, now, it's a topic of key strategic relevance for central bankers. As the [Bank for International Settlements puts it](#), 20% of the world's population may be using retail CBDC in the next three years. Both private and central bank digital currencies could have disruptive implications for banks. Bank disintermediation changes the channels of monetary transmission and raises fundamental questions about the operational framework of monetary policy. Mitigation of consequences for the availability of bank lending might involve central banks extending funding to banks, or taking on a greater role in credit provision themselves. Neither of these options look very attractive from a central bank perspective. At an even more fundamental level, the emergence of new digital currencies may fuel the debate about [bank money creation](#), involving a total rethink of the financial plumbing of our economies. Given these potentially far-reaching consequences, digital currencies are rapidly turning into Boardroom material as well.

Last year, an EU directive known as PSD2 entered into force. In the UK, this is known as "Open Banking". The "APIfication" of payments opens up the system to all kinds of new non-bank players. Paradoxically, individual service providers aim to provide a seamless, integrated service to their clients. The ideal often mentioned is an all-inclusive "super app", like WeChat or TaoBao, which caters for all the clients' needs, and makes any other app superfluous. At the same time, research into new currencies, both private and public, and the suspicion about the role of global players could actually result in a *more* fragmented back-end.

## What to expect in the years ahead?

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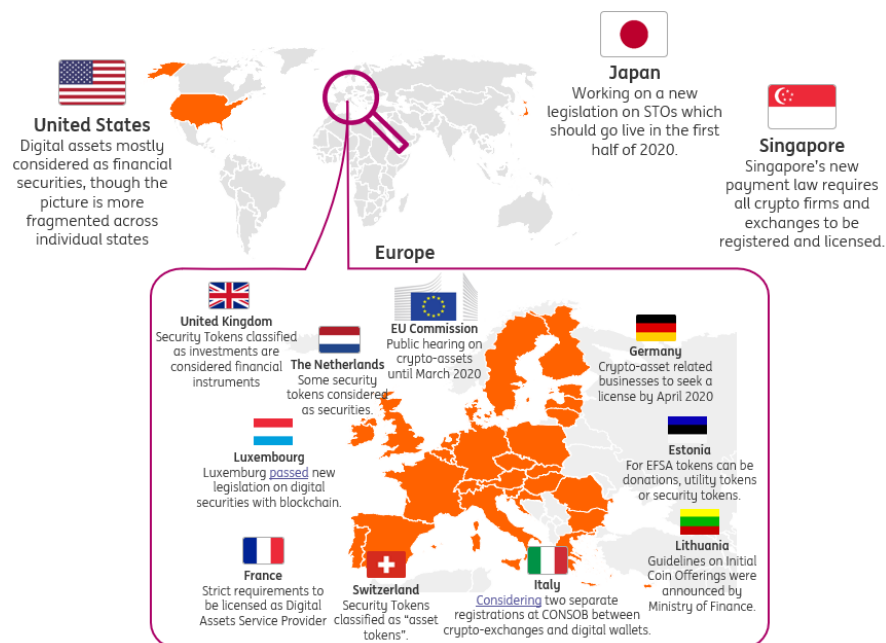
*For crypto-assets, the future is with those initiatives that embrace and work with regulation*

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We remain of the opinion that a [niche role is the best that 'legacy' crypto-assets can hope for](#) as long as they continue to try and work *around* regulation. The future is with initiatives that embrace and work with regulation. Moreover, the debate is [moving towards digital assets](#), with the industry making further progress on asset custody solutions, and regulators playing catch-up quickly this year, especially (perhaps surprisingly) in Europe. France strengthened its regulatory framework by [issuing](#) the *Pacte Act* last year. This new legislation brings more clarity on primary digital assets issuance, and allows Digital Asset Service Providers (DASPs) to operate in secondary markets. It also imposes some prudential and anti-money laundering measures. Germany created a new [licensing regime](#) for digital asset custody. Europe is now one of the most active regions in developing asset tokens and their legal framework, with Switzerland, Germany and France leading the way. However, to avoid fragmentation across jurisdictions, coordination and standardisation are needed. This would also bolster cross-border activity, which in turn would strengthen Europe's

credentials as a digital market.

## 2020: digital asset regulation in full swing

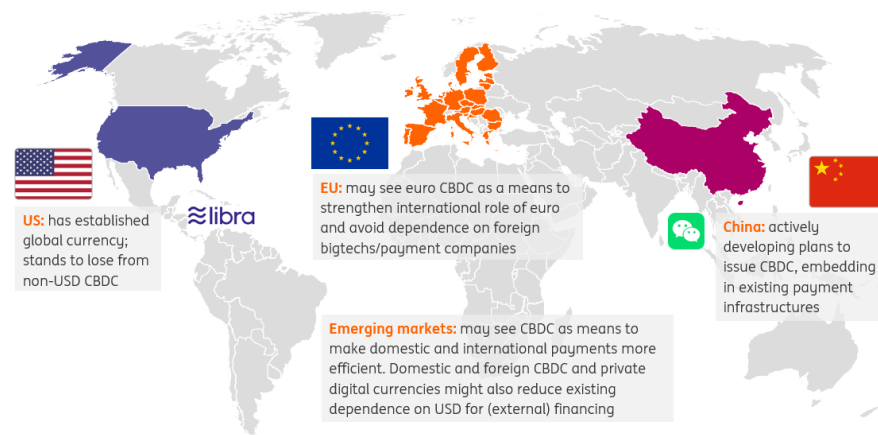


Source: ING research

Meanwhile, the CBDC debate and research [are accelerating](#). We expect more progress on the wholesale front first, with a key focus on improving efficiency, speed and costs while reducing counterparty risks. At the same time, central banks have stepped up their research on retail CBDC, but given the potentially more disruptive nature, they are likely to be careful and take it slow. In the developed world, the Riksbank is definitely the most "progressive" central bank on CBDC research with its [e-krona project](#), in the face of steeply declining cash use. Before issuing e-krona, however, the central bank needs to make sure that it has a clear mandate from the Swedish parliament, and so far, nothing has been decided. The People's Bank of China is also doing some serious work, having filed over 80 patents, and we should be ready for some potentially ground-breaking announcements in 2020. The PBoC is looking to preserve and build on the well-developed domestic digital payments infrastructure, while issuing and controlling CBDC centrally.

[Wholesale central bank currency may soon hit the wholesale market](#)

## 2020: the digital currency race gets global



Source: ING research

As for Libra, [Facebook has suggested](#) it could drop its currency basket approach and instead build separate €-libra, \$-libra currency tokens. While many of Libra's corporate backers have walked away from the project following objections from regulators and central bankers, we still expect them to return with Libra 2.0. If Libra (or another bigtech, for that matter) is able to establish a globe-spanning payments infrastructure, coupled with a unified digital ID scheme, it would be a major threat for banks and existing payment infrastructures in general.

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*A globe-spanning payments infrastructure with a unified digital ID scheme would be a major threat to existing infrastructures*

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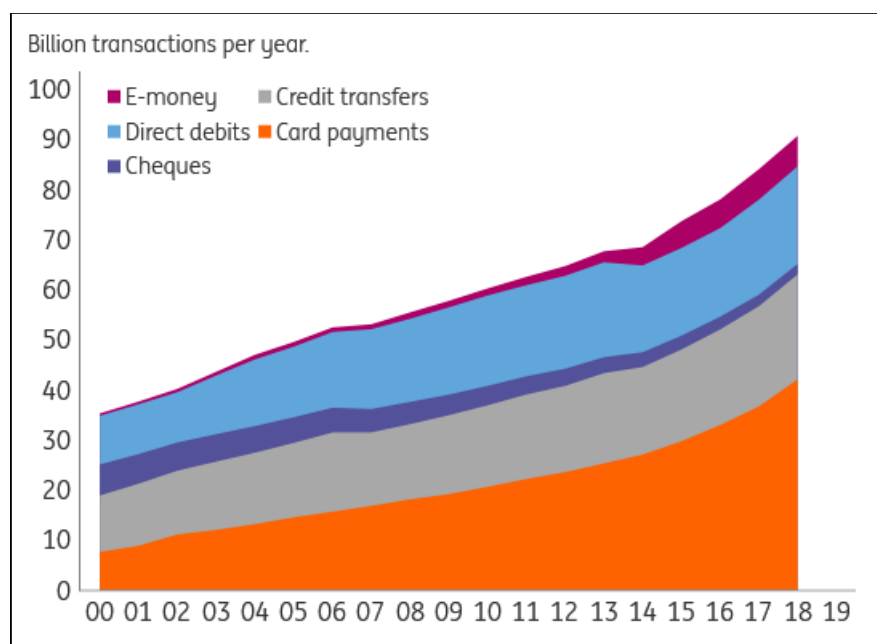
Could this mark the end of good old notes and coins? Lower acceptance of cash transactions might further marginalise the unbanked and may not be socially desirable. In the United States, for example, the city council of [New York](#) joined San Francisco and Philadelphia in forcing retail stores to continue to accept physical cash. Within Europe, usage of and attitudes towards the continued availability of physical cash [vary markedly between countries](#).

### Physical cash still dominant?

There were 90 billion non-cash payments in 2018 in the eurozone, or on average 2,854 every second. The latest eurozone survey on cash usage showed that in 2016, there were an estimated 129 billion cash transactions. Since 2016, non-cash payments increased by a cumulative 16%. It seems safe to assume that the number of cash transactions declined over that period, but that cash is still the dominant means of payment in the eurozone. We are probably not far off the turning point, though.



## Euro area non cash payment services



Source: ECB, ING Research

## The impact goes beyond the disappearance of plastic from your wallet

Policymakers have their work cut out for them in the years ahead: adjust customer due diligence and competition, privacy and digital ID frameworks, managing (geo)politics, and not least minimising the monetary and financial consequences. Central banks understandably want to take the time to think through all these aspects of digital currencies. The question is whether private sector initiatives allow them the time to do so.

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